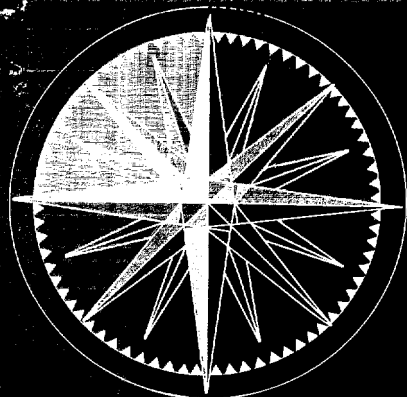


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SPECIAL REPORT

EUROPEAN UNION: HOW FAR, HOW SOON?

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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EUROPEAN UNION: HOW FAR, HOW SOON?

The European union movement appears once more to have approached a major crossroads. Despite important advances in several fields, the Common Market for the past year and a half has lacked any real momentum. Many Europeans, increasingly skeptical of the theory that economic union leads inevitably to political union, see an urgent need to push ahead on the political front if past gains are to be preserved. No early agreement is in sight, however, on what that organization should be or do, and even the rationalization of existing institutions is proving difficult. Moreover, there is great uncertainty what impact an era of East-West detente might have on European union prospects. Some integrationists believe they detect a decline in American support already, and others fear the Western Europeans themselves may become progressively less interested in consolidation.

The EEC: Plus and Minus

The uneven progress of the Common Market in the seven years since its establishment is increasingly evident. The reduction of internal tariff barriers and parallel moves toward a common external tariff (CXT) are still proceeding well ahead of the schedule set forth in the Treaty of Rome. Barriers to the movement of workers within the Community have been lessened, and the reality of the six-nation market seems firmly implanted in the minds of both European businessmen and of labor leaders. Moreover, the prospect of a fully integrated market has stimulated studies of ways of implementing the more general

provisions of the treaty which could mean the eventual adoption of common policies in areas which were only dimly perceived at the beginning.

Despite these and other advances, the Common Market has not recaptured the elan it lost when UK accession was vetoed in January 1963. Difficulties over the integration of agriculture--specifically the lack of agreement on a unified price for grains--has been symbolic of this decline in "community feeling." Because price unification would mean a decrease in the prices received by the German farmer and constitute a serious political risk to the Erhard government, which faces a national election next year,

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Bonn has been intransigent in its opposition. By putting national interest above the community's--as others have done in other matters--the Germans have delayed liberalization of agricultural trade throughout the Community. Moreover, the authority of the EEC's Executive Commission--which has heavily engaged its prestige on gaining acceptance for a unified grain price schedule--has been weakened.

The reluctance to increase food costs in an already inflationary situation is a partial explanation for the failure of the other members to insist on an early grain-price decision. France, which stands to gain most from access to the German agricultural market, has indicated that its attitude is also political. That is, it is sticking to the Gaullist principle of not overriding a member country on a matter of vital national concern. This, in turn, has led to speculation that the Germans might support the French in attempting to retain unanimous voting in the Common Market beyond 1 January 1966, when majority rule is scheduled to be extended.

In any case, the Commission fears that failure to reach a decision on so central an issue as agricultural policy could lead to the disintegration of the EEC. It foresees, for example, "common" solutions giving way to bilateral or other non-Community expedients. The balance of economic power within the Community would be altered,

and there would be a serious question that a "partial" union could survive.

The Italian Case

The difficulty the EEC has encountered to date in formulating policies to deal with inflationary pressures and with the imbalance between Italian and German trade and payments further illustrates the problems caused when the Community is caught between diverging political tendencies in the member countries.

The need for effective coordination of monetary and fiscal policies has been accentuated by the rapid advances in the establishment of the EEC's customs union. With freer trade in the Common Market, a financial crisis in one member country now is quickly "exported" to the others--as the Italian case has amply demonstrated.

The slow and inadequate Community response to Italy's problems may be due only in part, however, to the difficulty of overcoming the traditional caution of central bank governors and economic policy makers. Some Italian circles have charged that right-wing French and German elements have been pressing the EEC Commission to insist that Italy implement some domestically unpopular corrective measures and to hold off on Community financial aid. Whatever the truth of such claims, the antagonism of such

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European groups to Rome's center-left, reformist government is well known and points up the delicacy with which EEC institutions must deal with intra-Community problems.

In the most recent discussions of the Italian situation, Commission member Marjolin has noted the danger that the stabilization measures the Italian Government presently contemplates might unduly restrict the availability of credit. Nevertheless, aid in financing any persistent balance-of-payments deficit is still largely a matter for the individual states, even though delegates to a recent meeting of the EEC Monetary Committee were reportedly sympathetic to the idea of a Community loan to Italy. Indications are that West Germany is unenthusiastic, however, and Rome itself does not now consider the need for credits to be pressing. Bonn is apparently willing to do no more than make the German capital market available on a private basis to Italian borrowers.

"Third Country" Problems

The internal problems which retard progress toward a fully integrated Common Market continue to be aggravated by the uncertainties in the EEC's commercial and economic relations with others. The increasing importance, for example, of Germany's, Belgium's and the Netherlands' ties with their EEC partners at the expense of traditional ties with some of the seven European Free Trade Association (EFTA) countries

may be tending to harden the lines between the two blocs.

Chancellor Erhard, on his recent trip to Denmark, went out of his way to assure the Danes that Germany still wished to protect the interests of third countries. Shortly afterward, however, the EEC approved regulations regarding imports of cheese which would have severely limited the Danish market in West Germany. Although the consequent "flap" was eventually resolved with an exception in Germany's favor, the episode was a reminder that the continued existence of the two trade blocs is a constant temptation to try to negotiate bilateral solutions of specific issues. It may also be an invitation to try to seek some kind of broader accommodation -- such as an intra-European trading arrangement.

The Kennedy Round tariff negotiations were inspired in part by the desire to eliminate any pressing commercial need for such an accommodation between "the Six" and "the Seven" by materially reducing trade barriers on a most-favored-nation basis. The problems encountered in the preliminary talks, however, have raised doubts about the degree of trade liberalization which may ultimately be attained. Notwithstanding, Paris' frequent assertions that the Kennedy Round is a US plot to "dismantle" the EEC, failure of the Kennedy Round might in fact produce substantial disaffection within the Community on the part of those members whose trade outside the EEC is especially large -- notably West Germany and the Netherlands.

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Moreover, there have been recent suggestions that France--with the tacit support of Italy and Benelux--may be willing to postpone a solution of the EEC's agricultural impasse until it becomes a critical issue in the Kennedy Round negotiations. This approach would undercut the entire decision-making process of the Common Market. It would involve the risk that this and other "crises" would be worked out, not between the Commission--representing the Community--and third countries, but in a series of bilateral deals between outside countries and individual states.

The Illusive Political Goals

Despite all the Common Market's problems it is clear that none of its members would as yet wish to see it dissolved. The balance of mutual economic benefits still weighs heavily in favor of the Community's continuance. De Gaulle himself said last April that the Common Market "little by little is becoming essential to French prosperity," and he has repeatedly referred to the importance to France of an integrated agricultural market of the Six.

Although interested in maintaining the process of economic integration, Paris is nevertheless determined to prevent the EEC and the two other supranational economic communities from becoming the model for a "political Europe." This was evident, for example, in De Gaulle's speech in May at the inauguration of the Moselle Canal. He spoke of the project as a "symbol

of the spirit and practice of the EEC," but stressed that its realization was due to the bilateral political relationship between France and Germany.

This question of how to move from "economic Europe" to "political Europe" remains pervasive in European affairs--affecting even such comparatively simple matters as the projected merger of the executives of the EEC, EURATOM, and the Coal-Steel Community (CSC). It now seems likely that such an "executive fusion" will be approved in September, but the compromises which were announced at the 29-30 July meetings of the EEC Council of Ministers leave grave doubts that the arrangements will in fact constitute a significant step toward European unity.

The integrationists had wished, for example, that the reorganization of the executives would provide the occasion for some extension in the powers of the European Parliament and pave the way for an eventual consolidation of Community institutions--now scattered among Brussels, Luxembourg, and Strasbourg--in a single "European capital." France, however, remains obstinately opposed to this and prospects are for no more than a meaningless addition to the Parliament's role in drawing up the Community's budget. Moreover, Luxembourg appears to have insisted successfully on "political compensation" for the loss of the CSC's High Authority to Brussels.

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The integrationists seem also to have suffered at least a partial defeat on the question of the size of a unified executive. The present EEC Commission had argued that anything larger than a nine-man body would be unwieldy and given to indecision, but the ministers settled on a 14-man group instead. Although it was agreed that the new commission will be reduced to nine when the communities themselves are fully merged in another two to four years, it remains to be seen whether this decision will actually be carried out.

The negotiations on the details of how to combine the three communities are themselves regarded with some apprehension since they will reopen those articles in the EEC treaty which provide for a gradual extension of majority voting rules. France continues to emphasize that "important" questions can never be decided except by unanimous vote. There have also been indications from Bonn--principally in the context of the grain price question--that West Germany has some sympathy with this position.

Inasmuch as the Common Market has already reached that stage where political considerations quickly become paramount

in basically economic issues, the fate of the Community cannot be indefinitely divorced from the broader debate over political arrangements. By the same token the internal course of EEC events cannot but affect the over-all political atmosphere. Thus, the bypassing of majority-voting provisions, for example, either by treaty revision or by tacit "gentlemen's agreement," would probably constitute a significant victory for the concept of a "loose" European political organization.

A More Direct Approach?

If the progress of economic integration has not carried over into the political arena, it has nevertheless given rise to problems which can only be settled there. At a recent meeting of the Western European Union, Jacques Baumel, the secretary general of France's Gaullist party, stated that the Six "were faced with the success of economic cooperation and the failure of political Europe." It is evident, however, that while economic integration is not generating political union, the efforts to move more directly in that direction also remain stymied on the persisting differences over approach, on the fears of French or German domination, and on the dispute over the relationship of a United Europe to the United States.

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The recent De Gaulle - Erhard meeting provided no new solutions to any of these complex problems. Moreover, the positions taken by those two leaders together with the reactions from the other EEC states suggest no improvement in the outlook is immediately in prospect. In response to pressures from De Gaulle for closer French-German ties, Erhard argued in favor of a larger grouping. In subsequent statements he seemed to go further than ever before in endorsing the concept of a federal European organization.

Erhard now is committed to offer new proposals which would enable further discussions of political union to take place, but both French and German sources are pessimistic that new approaches of any promise will be found. Even if Erhard somehow succeeds in achieving a further narrowing of the differences between the federalists and the Gaullists, there would remain the problem of satisfying the Italian and Benelux opposition to any arrangement which threatens to weaken either the existing European communities or NATO.

The model for a political union constructed by the so-called Fouchet and Cattani commissions, but rejected by the Six in 1962, could be given a face lifting. It is also possible that the smaller EEC countries will become progressively less adamant in insisting on Britain's participation. While this would presumably please the French, the smaller EEC countries would probably still require some promise of a suprana-

tional evolution of the union--at least in the long run.

Nevertheless agreement on a political union will remain elusive so long as the fears of Gaullist France--and to a less active extent, of West Germany--remain so high. None of the other five seems prepared to accept an arrangement which might lead to France's domination of the Continent. In France, there are probably latent fears of West German power behind De Gaulle's determination to relinquish none of French sovereignty and to possess an "independent" deterrent force. Nor do the Germanic Gaullists, who press for an exclusive French-German union, provide much comfort to the other Europeans who trust neither country.

In any case, both De Gaulle, with his repeated pleas for an "independent" Europe, and Erhard, with his reassertions of loyalty to close Atlantic ties, recognize that the impasse over Europe's organization is due in great part to their differences over the extra-European interests of the Six.

Prospects

In the short term at least, there is not likely to be much movement toward achieving European political union. Until more is known of the attitude of the new British Government which will be formed in October, it is likely this will be used as an excuse for delay. The Kennedy Round is also an important and still undecided test case of the ability of the EEC to adopt and

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maintain a common negotiating position on issues which are vital to--and frequently conflicting among--the various member states.

Above all, there is the undecided question of the multilateral nuclear force (MLF). It is difficult to perceive how Europe can proceed very far toward a political union to coordinate foreign and military policies when its prospective members are so much at odds on such fundamental questions as Europe's nuclear defense.

The longer term prospect is no less problematical. With all its faults, the Common Market has laid a foundation for unity which will not easily be swept away, but the integrationists who envisioned "building Europe brick by brick" have found it is a long way to the roof, and there appears to be an urgent need for a new investment of energy and confidence.

Finally, there now may be a basic threat to the integration movement in the coincidence of divisive inner contradictions with divisive pressures and opportunities from outside. The unity which now exists was in considerable part the result of the catalytic impact of the cold war--the US contributing to unity with its support, the USSR contributing to unity with its opposition. In the present situation, the revival of European nationalisms is tending to sap the spirit of the integration movement. The US is finding the commercial and other costs of European union rather high. The Soviet stance no longer serves as an inducement to stand together--indeed, it tends to invite adventurousness. The temptation to return to more or less traditional ways of satisfying immediate interests is therefore a very large one--even at the risk of restoring the traditional instability of Western Europe.

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